

**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John Farris, Secretary
Finance and Administration Cabinet
Honorable Larry Tincher, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates, PSC presents the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood & Associates, PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates, PSC evaluated the Nicholas County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NICHOLAS COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

Simon, Underwood & Associates PSC has completed the Nicholas County Fiscal Court audit for fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$5,838,633 as of June 30, 2006 in its governmental activities with total net assets of \$5,838,633. The fiscal court had unrestricted net assets of \$651,405 in its governmental activities.

Debt Obligations:

Financing obligation agreements totaled \$227,350 as of June 30, 2006. Future principal and interest payments of \$254,792 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	2
NICHOLAS COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
STATEMENT OF FUND NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS.....	27
STATEMENT OF CHANGES IN FUND NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS	31
NOTES TO FINANCIAL STATEMENTS.....	33
BUDGETARY COMPARISON SCHEDULES	49
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	53
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	57
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	60
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	65
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

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*Simon,
Underwood &
Associates PSC*

Certified Public Accountants and Consultants

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary, Finance and Administration Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Nicholas County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Nicholas County Senior Citizens Center, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit is based upon the report of the other auditors. Those financial statements reflect 100% of assets and revenues of the discretely presented component unit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Nicholas County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based upon our report and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Larry Tinchler, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

The County has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Schedules are not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nicholas County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2006 on our consideration of Nicholas County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
August 25, 2006

NICHOLAS COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2006

Fiscal Court Members:

Larry Tinch	County Judge/Executive
Daryl Stacy	Magistrate
Steve Hamilton	Magistrate
Billy Dixon	Magistrate
Avery Thornsburg	Magistrate
Jeff Randolph	Magistrate

Other Elected Officials:

Dawn Letcher	County Attorney
Jeff Sidles	Jailer
Douglas Fryman	County Clerk
Sandy Watkins	Circuit Court Clerk
Dick Garrett	Sheriff
Michelle McDonald	Property Valuation Administrator
Roy Gaunce	Coroner

Appointed Personnel:

Wanda Dotson	County Treasurer
Dana Price	Finance Officer/Occupational Tax Collector

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NICHOLAS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

NICHOLAS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		Component Unit
	Governmental Activities	Totals	Nicholas County Senior Citizens Center
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 668,592	\$ 668,592	\$ 16,331
Accounts Receivable - Homecare			10,461
Investments	370,046	370,046	
Total Current Assets	1,038,638	1,038,638	26,792
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	1,297,621	1,297,621	
Buildings	1,717,211	1,717,211	
Other Equipment	239,065	239,065	
Vehicles and Equipment	230,855	230,855	
Infrastructure Assets - Net of Depreciation	1,542,593	1,542,593	
Total Noncurrent Assets	5,027,345	5,027,345	
Total Assets	6,065,983	6,065,983	26,792
LIABILITIES			
Current Liabilities:			
Accounts Payable - Title III/Homecare			4,470
Financing Obligations	47,394	47,394	
Total Current Liabilities	47,394	47,394	4,470
Noncurrent Liabilities:			
Financing Obligations	179,956	179,956	
Total Noncurrent Liabilities	179,956	179,956	
Total Liabilities	227,350	227,350	4,470
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,799,995	4,799,995	
Restricted For:			
Debt Service	9,742	9,742	
Permanent Trust	377,491	377,491	
Unrestricted	651,405	651,405	22,322
Total Net Assets	\$ 5,838,633	\$ 5,838,633	\$ 22,322

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,247,908	\$ 28,433	\$ 723,036	\$ 555,143
Protection to Persons and Property	296,552	19,092	67,691	
General Health and Sanitation	84,425	45,276		
Social Services	109,628	14,668		
Recreation and Culture	58,686			
Roads	208,022	5,101	485,501	
Debt Service	57,639			
Capital Projects	119,479			46,071
Total Primary Government	\$ 2,182,339	\$ 112,570	\$ 1,276,228	\$ 601,214
Component Units:				
Nicholas County Senior Citizens Center	\$ 122,053	\$	\$ 121,278	\$
Total Component Units	\$ 122,053	\$ 0	\$ 121,278	\$ 0

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Transfers from City/County

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Totals	Component Unit
\$ 58,704	\$ 58,704	\$
(209,769)	(209,769)	
(39,149)	(39,149)	
(94,960)	(94,960)	
(58,686)	(58,686)	
282,580	282,580	
(57,639)	(57,639)	
(73,408)	(73,408)	
<u>\$ (192,327)</u>	<u>(192,327)</u>	
		(775)
		<u>(775)</u>
211,140	211,140	
7,290	7,290	
54,417	54,417	
318,351	318,351	
21,907	21,907	
78,191	78,191	
86,840	86,840	27
0	0	5,908
	0	
<u>778,136</u>	<u>778,136</u>	<u>5,935</u>
585,809	585,809	5,160
<u>5,252,824</u>	<u>5,252,824</u>	<u>17,162</u>
	0	
<u>\$ 5,838,633</u>	<u>\$ 5,838,633</u>	<u>\$ 22,322</u>

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	Special Revenue Funds			
	General Fund	Road Fund	Phase I Tobacco Fund	Mathers Educational Fund
ASSETS				
Cash and Cash Equivalents	\$ 436,964	\$ 40,951	\$ 24,253	\$ 139,283
Investments				
Total Assets	<u>\$ 436,964</u>	<u>\$ 40,951</u>	<u>\$ 24,253</u>	<u>\$ 139,283</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 72,233	\$ 161	\$	\$
Permanent Trust				
Unreserved:				
General Fund	364,731			
Special Revenue Funds		40,790	24,253	139,283
Debt Service Fund				
Total Fund Balances	<u>\$ 436,964</u>	<u>\$ 40,951</u>	<u>\$ 24,253</u>	<u>\$ 139,283</u>

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Permanent Fund		
Knox Hospital Trust Fund	Non- Major Funds	Total Governmental Funds
\$ 7,445	\$ 19,696	\$ 668,592
370,046		370,046
<u>\$ 377,491</u>	<u>\$ 19,696</u>	<u>\$ 1,038,638</u>

\$ 377,491	5,725	\$ 78,119
		377,491
		364,731
	4,229	208,555
	<u>9,742</u>	<u>9,742</u>
<u>\$ 377,491</u>	<u>\$ 19,696</u>	<u>\$ 1,038,638</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 1,038,638
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	6,470,822
Accumulated Depreciation	(1,443,477)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Financing Obligations	<u>(227,350)</u>
Net Assets Of Governmental Activities	<u>\$ 5,838,633</u>

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Special Revenue Funds		
		Road Fund	Phase I Tobacco Fund	Mathers Educational Fund
REVENUES				
Taxes	\$ 591,198	\$	\$	\$
Excess Fees	21,907			
Licenses and Permits	3,615			
Intergovernmental	236,036	1,105,935	339,080	
Charges for Services	24,832	5,101		
Miscellaneous	65,971	10,558		93,879
Interest	25,600	13,705	14,593	9,877
Total Revenues	969,159	1,135,299	353,673	103,756
EXPENDITURES				
General Government	564,530	18,000		
Protection to Persons and Property	138,122			
General Health and Sanitation	15,120			
Social Services	26,004			82,949
Recreation and Culture	72,320			
Roads		758,164		
Debt Service	36,438	21,201		
Capital Projects		119,479		
Administration	164,815	171,128	412,691	1,359
Total Expenditures	1,017,349	1,087,972	412,691	84,308
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(48,190)	47,327	(59,018)	19,448
Other Financing Sources (Uses)				
Financing Obligation Proceeds	44,984			
Transfers From Other Funds	101,983			
Transfers To Other Funds	(104,000)	(90,000)		
Total Other Financing Sources (Uses)	42,967	(90,000)		
Net Change in Fund Balances	(5,223)	(42,673)	(59,018)	19,448
Fund Balances - Beginning	442,187	83,624	83,271	119,835
Fund Balances - Ending	\$ 436,964	\$ 40,951	\$ 24,253	\$ 139,283

The accompanying notes are an integral part of the financial statements.

NICHOLAS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Permanent Fund		
Knox Hospital Trust Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 591,198
		21,907
		3,615
	122,217	1,803,268
	56,088	86,021
	4,891	175,299
21,603	1,462	86,840
<u>21,603</u>	<u>184,658</u>	<u>2,768,148</u>
		582,530
	141,552	279,674
	59,388	74,508
		108,953
		72,320
	31,271	789,435
		57,639
		119,479
2,690	66,661	819,344
<u>2,690</u>	<u>298,872</u>	<u>2,903,882</u>
<u>18,913</u>	<u>(114,214)</u>	<u>(135,734)</u>
		44,984
	104,000	205,983
(10,500)	(1,483)	(205,983)
<u>(10,500)</u>	<u>102,517</u>	<u>44,984</u>
8,413	(11,697)	(90,750)
369,078	31,393	1,129,388
<u>\$ 377,491</u>	<u>\$ 19,696</u>	<u>\$ 1,038,638</u>

The accompanying notes are an integral part of the financial statements.

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**NICHOLAS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

NICHOLAS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change In Fund Balances - Total Governmental Funds	\$ (90,750)
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Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay	770,494
Depreciation Expense	(93,272)

The Issuance Of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources To Governmental Funds, While Financing Obligations Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions, However, Have No Effect On Net Assets.

Financing Obligation Proceeds	(44,984)
Financing Obligation Payments	44,321

Change in Net Assets of Governmental Activities	\$ 585,809
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The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF FUND NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2006

NICHOLAS COUNTY
STATEMENT OF FUND NET ASSETS - FIDUCIARY FUND - MODIFIED CASH BASIS

June 30, 2006

	<u>Mathers Educational Trust Fund</u>
Assets	
Cash and Cash Equivalents	\$ 116,594
Mutual Funds - Fixed Income	1,585,522
Mutual Funds - Equity	<u>533,852</u>
Total Assets	<u>2,235,968</u>
 Net Assets	
Held in trust for educational and other purposes	 <u><u>\$ 2,235,968</u></u>

The accompanying notes are an integral part of the financial statements.

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NICHOLAS COUNTY
STATEMENT OF CHANGES IN FUND NET ASSETS -
FIDUCIARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

NICHOLAS COUNTY
STATEMENT OF CHANGES IN FUND NET ASSETS -
FIDUCIARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Mathers Educational Trust Fund</u>
Additions	
Dividends	\$ 88,345
Interest	2,881
Other	2,094
Gain on Sale of Investments	<u>34,033</u>
Total Additions	127,353
Deletions	
Commissions and Fees	13,179
Benefit Payments	<u>83,879</u>
Total Deletions	<u>97,058</u>
Change In Net Assets	30,295
Net Assets Held In Trust	
Total Net Assets - Beginning	<u>2,205,673</u>
Total Net Assets - Ending	<u><u>\$ 2,235,968</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	33
NOTE 2.	DEPOSITS AND INVESTMENTS	39
NOTE 3.	CAPITAL ASSETS.....	42
NOTE 4.	FINANCING OBLIGATIONS.....	43
NOTE 5.	EMPLOYEE RETIREMENT SYSTEM	45
NOTE 6.	INSURANCE.....	45
NOTE 7.	LANDFILL CLOSURE AND POSTCLOSURE COSTS	45

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the values of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Nicholas County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Discretely Presented Component Units

The component unit's column in the government-wide financial statements includes the data of the following organization. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government.

Nicholas County Senior Citizens Center – Title III B, C, and Homecare Program

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Nicholas County Senior Citizens Center operates the Title III B, C, and Homecare Programs on behalf of the Nicholas County Fiscal Court. The Fiscal Court has contracted with Bluegrass Area Development District to provide these programs. The Fiscal Court is responsible for appointing the Senior Citizens Center's Director. The Fiscal Court has the ability to significantly influence operations, select the governing authority, and participate in fiscal management and the scope of public service of the Senior Citizens Center. The Senior Citizens Center is financially accountable to the Fiscal Court and cannot be named in any litigation without recourse to the Fiscal Court. This fiscal dependency requires the Fiscal Court to include the Senior Citizens Center as a component unit. The senior Citizens Center is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Senior Citizens Center is presented discretely.

Audited financial statements for the Nicholas County Senior Citizens Center – Title III B, C, and Homecare Program, a discretely presented component unit, may be requested by contacting the Nicholas County Senior Citizens Center, 124 East Main Street, Carlisle, Kentucky, 40311.

C. Nicholas County Elected Officials

Kentucky law provides for election of the below officials from the geographic area constituting Nicholas County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Nicholas County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. The County has no business-type activities. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the financial statements. The County has no proprietary funds.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Mathers Educational Fund - The primary purpose of this fund is to account for the distribution requirements of the Mathers Educational Trust Fund. The primary source of revenue for this fund is the income generated by the principal of the Trust Fund. The Trust Fund requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Phase I Tobacco Fund - The purpose of this fund is to account for the distribution of subsidy resources from the state for qualifying farmers of tobacco funds. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Knox Hospital Trust Fund – This fund was established to promote the general health and welfare of the people of Nicholas County, especially the employment of a health nurse. The Fiscal Court uses the income generated from the principal of the Trust through the General Fund for this purpose.

The primary government also has the following nonmajor funds: Jail Fund, Local Government Economic Assistance Fund, Landfill Fund, Homeland Security Grant Fund, and Debt Service Fund.

Special Revenue Funds:

The Road Fund, Phase I Tobacco Fund, Mathers Educational Fund, Jail Fund, Local Government Economic Assistance Fund, Landfill Fund and Homeland Security Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The County has one debt service fund included as a non-major fund. Debt service funds are used to account for the accumulation of resources for the payment of general long-term debt principal and interest.

Permanent Fund:

The County has one permanent fund, the Knox Hospital Trust Fund. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the county's programs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Fiduciary Fund

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments and can not be used to support the government's own programs. When these assets are held under the terms of a formal trust agreement, pension trust funds, investment trust funds, private-purpose trust funds, and agency funds are used.

The primary government reports the following fiduciary fund:

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Fiduciary Fund (Continued)

Mathers Educational Trust Fund – This private-purpose trust fund was established for educational expenses of Nicholas County school age children. The Fiscal Court awards the income generated from the principal of the Trust based upon applications received, less administrative costs. The trust fund is maintained by a third-party trustee who determines the investment portfolio of the fund.

Presentation of Component Units

The financial statements present the following major discretely presented component unit: Nicholas County Senior Citizens Center – Title III B, C, and Homecare Program.

This component unit is reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as “Component Unit” to emphasize this organization’s separateness from the Fiscal Court’s primary government.

E. Deposits and Investments

The government’s cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). Investments are recorded at cost and changes in fair market value of investments are not recorded in the financial statements.

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government’s capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings	\$ 50,000	10-100
Building Improvements	\$ 25,000	10-100
Other Equipment	\$ 5,000	2-10
Vehicles and Equipment	\$ 5,000	2-10
Infrastructure	\$ 25,000	5-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Nicholas County has no organizations considered related organizations of the Nicholas County Fiscal Court.

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, Nicholas County has no organizations considered jointly governed organizations of the Nicholas County Fiscal Court.

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, Nicholas County has no organizations considered joint ventures of the Nicholas County Fiscal Court.

Note 2. Deposits and Investments

A. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits and Investments (Continued)

A. Deposits (Continued)

Custodial Credit Risks – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposit may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006 all deposits of the primary government and component unit were covered by FDIC insurance or a properly executed collateral security agreement.

	Carrying Amount	Bank Balance
Cash	\$ 661,147	\$ 719,080
Cash with fiscal agents	124,038	124,038
Totals	<u>\$ 785,185</u>	<u>\$ 843,118</u>

B. Investments

Interest Rate Risk

The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

Credit Risk

KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Banker's acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. All investments of the County are reported in the Permanent Fund and Private Purpose Trust Fund and are maintained by third-party trustees bound by the legal restrictions established by the trust.

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2006, the County's investments, held in the Permanent Fund and Private Purpose Trust Fund, were insured or registered or the securities were held by the County or by the County's agent in the County's name.

Types of Investments	Carrying Amount	Market Value	Concentration
Equities in Mutual funds	\$ 501,779	\$ 595,194	0.20
Equities in common stocks	220,831	259,427	0.09
Equities in health care corps	18,703	19,073	0.01
Fixed Income in Bond Funds	1,748,108	1,739,024	0.70
Totals	<u>\$ 2,489,421</u>	<u>\$ 2,612,718</u>	<u>1.00</u>

The following chart shows current cash and investments for the governmental and fiduciary activities. Discretely presented component units are not included in this chart.

Cash and Investment Summary As reported in the Statement of Net Assets and Statement of Fiduciary Net Assets	Current Cash And Investments
Governmental activities	\$ 1,038,638
Fiduciary activities	<u>2,235,968</u>
	<u>\$ 3,274,606</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,297,621	\$	\$	\$ 1,297,621
Construction In Progress	171,329		(171,329)	
Total Capital Assets Not Being Depreciated	1,468,950		(171,329)	1,297,621
Capital Assets, Being Depreciated:				
Buildings	1,724,299	293,696		2,017,995
Other Equipment	749,020	62,715		811,735
Vehicles and Equipment	747,816	10,000		757,816
Infrastructure	1,010,243	575,412		1,585,655
Total Capital Assets Being Depreciated	4,231,378	941,823		5,173,201
Less Accumulated Depreciation For:				
Buildings	(273,016)	(27,768)		(300,784)
Other Equipment	(567,908)	(4,762)		(572,670)
Vehicles and Equipment	(486,986)	(39,975)		(526,961)
Infrastructure	(22,295)	(20,767)		(43,062)
Total Accumulated Depreciation	(1,350,205)	(93,272)		(1,443,477)
Total Capital Assets, Being Depreciated, Net	2,881,173	848,551		3,729,724
Governmental Activities Capital Assets, Net	\$ 4,350,123	\$ 848,551	\$ (171,329)	\$ 5,027,345

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 8,481
Protection to Persons and Property	26,878
General Health and Sanitation	9,917
Social Services	675
Recreation and Culture	11,366
Roads, Including Depreciation of General Infrastructure Assets	35,955
Total Depreciation Expense - Governmental Activities	\$ 93,272

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Financing Obligations

A. Courthouse Renovation

Nicholas County Fiscal Court entered into a lease agreement for \$291,000 with the Kentucky Association of Counties Leasing Trust Program, for courthouse renovation, on September 24, 1997. Payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. The lease is to be paid in full on October 1, 2012. The outstanding principal as of June 30, 2006 was \$147,128. The following indicates scheduled debt service requirements (principal and interest only) for future periods through the end of the lease:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	7,298	21,218
2008	6,162	22,047
2009	4,952	22,910
2010	3,724	23,806
2011	2,438	24,737
2012-2013	<u>1,164</u>	<u>32,410</u>
Totals	<u>\$ 25,738</u>	<u>\$ 147,128</u>

B. Dump Trucks

Nicholas County Fiscal Court entered into a lease agreement for \$96,106 with the Kentucky Association of Counties Leasing Trust Program, for two 2003 GMC dump trucks, on August 14, 2003. Payments are due monthly and are calculated annually based on the outstanding principal, variable interest rate, and associated fees. The lease is to be paid in full on August 20, 2008. The outstanding principal as of June 30, 2006 was \$40,058. The following indicates scheduled debt service requirements (principal and interest only) for future periods through the end of the lease:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2007	1,240	19,750
2008	<u>464</u>	<u>20,308</u>
Totals	<u>\$ 1,704</u>	<u>\$ 40,058</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Financing Obligations (Continued)

C. Courthouse Renovation - AOC

Nicholas County Fiscal Court entered into a lease agreement for \$44,984 with the Administrative Office of the Courts (AOC), for courthouse renovation, on September 26, 2005. Payments are withdrawn quarterly from rental receipts due to the Nicholas County Fiscal Court from the AOC. Interest free payments total \$6,426 annually. The lease is to be paid in full on June 30, 2012. The outstanding principal as of June 30, 2006 was \$40,164. The following indicates scheduled debt service requirements for future periods through the end of the lease:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Principal</u>
2007	6,426
2008	6,426
2009	6,426
2010	6,426
2011	6,427
2012-2013	<u>8,033</u>
Totals	<u>\$ 40,164</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 226,687</u>	<u>\$44,984</u>	<u>\$44,321</u>	<u>\$ 227,350</u>	<u>\$ 47,394</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 226,687</u>	<u>\$ 44,984</u>	<u>\$ 44,321</u>	<u>\$ 227,350</u>	<u>\$ 47,394</u>

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5% of their salary to the plan. The county's contribution rate for non-hazardous employees was 10.98%.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2006, Nicholas County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Landfill Closure and Postclosure Costs

The Nicholas County Landfill was closed in September 1993. The Fiscal Court must comply with established state and federal landfill closure and postclosure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated postclosure care costs total \$72,500 as of June 30, 2006, or \$8,000 per year. During the fiscal year ending June 30, 2006, the County made no expenditures on postclosure costs. The County Judge/Executive and two magistrates are performing the process of groundwater monitoring in-house. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that postclosure costs will be paid out of the General Fund to the extent that funds are available with any excess costs to be funded using long-term borrowings.

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NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 509,500	\$ 509,500	\$ 591,198	\$ 81,698
Excess Fees		20,374	21,907	1,533
Licenses and Permits	2,900	2,900	3,615	715
Intergovernmental	58,740	260,608	236,036	(24,572)
Charges for Services	23,250	23,250	24,832	1,582
Miscellaneous	56,416	60,772	65,971	5,199
Interest	26,500	26,500	25,600	(900)
Total Revenues	677,306	903,904	969,159	65,255
EXPENDITURES				
General Government	324,858	600,293	564,530	35,763
Protection to Persons and Property	122,724	143,051	138,122	4,929
General Health and Sanitation	15,092	15,581	15,120	461
Social Services	56,350	59,700	26,004	33,696
Recreation and Culture	72,710	72,710	72,320	390
Debt Service	60,000	31,272	36,438	(5,166)
Administration	171,230	179,889	164,815	15,074
Total Expenditures	822,964	1,102,496	1,017,349	85,147
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(145,658)	(198,592)	(48,190)	150,402
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	40,000	40,000	44,984	4,984
Transfers From Other Funds	91,000	91,000	101,983	10,983
Transfers To Other Funds	(148,342)	(148,342)	(104,000)	44,342
Total Other Financing Sources (Uses)	(17,342)	(17,342)	42,967	60,309
Net Changes in Fund Balance	(163,000)	(215,934)	(5,223)	210,711
Fund Balance - Beginning	163,000	215,934	442,187	226,253
Fund Balance - Ending	\$ 0	\$ 0	\$ 436,964	\$ 436,964

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 653,650	\$ 1,106,018	\$ 1,105,935	\$ (83)
Charges for Services	2,000	2,000	5,101	3,101
Miscellaneous	200	8,630	10,558	1,928
Interest	8,000	8,000	13,705	5,705
Total Revenues	663,850	1,124,648	1,135,299	10,651
EXPENDITURES				
General Government	18,000	18,000	18,000	
Roads	416,561	763,839	758,164	5,675
Debt Service	25,000	25,000	21,201	3,799
Capital Projects	7,500	126,979	119,479	7,500
Administration	166,600	175,954	171,128	4,826
Total Expenditures	633,661	1,109,772	1,087,972	21,800
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	30,189	14,876	47,327	32,451
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(91,000)	(91,000)	(90,000)	1,000
Total Other Financing Sources (Uses)	(91,000)	(91,000)	(90,000)	1,000
Net Changes in Fund Balance	(60,811)	(76,124)	(42,673)	33,451
Fund Balance - Beginning	60,811	76,124	83,624	7,500
Fund Balance - Ending	\$ 0	\$ 0	\$ 40,951	\$ 40,951

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

PHASE I TOBACCO FUND				
	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 300,072	\$ 300,072	\$ 339,080	\$ 39,008
Interest	5,000	5,000	14,593	9,593
Total Revenues	<u>305,072</u>	<u>305,072</u>	<u>353,673</u>	<u>48,601</u>
EXPENDITURES				
Administration	<u>680,072</u>	<u>680,072</u>	<u>412,691</u>	<u>267,381</u>
Total Expenditures	<u>680,072</u>	<u>680,072</u>	<u>412,691</u>	<u>267,381</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(375,000)</u>	<u>(375,000)</u>	<u>(59,018)</u>	<u>315,982</u>
Net Changes in Fund Balance	(375,000)	(375,000)	(59,018)	315,982
Fund Balance - Beginning	<u>375,000</u>	<u>375,000</u>	<u>83,271</u>	<u>(291,729)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 24,253</u>	<u>\$ 24,253</u>

NICHOLAS COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

MATHERS EDUCATIONAL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Miscellaneous Revenue	\$	\$	\$ 10,000	\$ 10,000
Interest	5,000	5,000	9,877	4,877
Total Revenues	5,000	5,000	19,877	14,877
EXPENDITURES				
Social Services	147,550	147,550	82,949	64,601
Administration	60,450	60,450	1,359	59,091
Total Expenditures	208,000	208,000	84,308	123,692
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(203,000)	(203,000)	(64,431)	138,569
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	85,000	85,000	83,879	(1,121)
Total Other Financing Sources (Uses)	85,000	85,000	83,879	(1,121)
Net Changes in Fund Balances	(118,000)	(118,000)	19,448	137,448
Fund Balances - Beginning	118,000	118,000	119,835	1,835
Fund Balances - Ending	\$ 0	\$ 0	\$ 139,283	\$ 139,283

NICHOLAS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by June 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances

Following is a summary of adjustments that convert the cash basis budgetary schedules to the modified cash basis of accounting used in the Statement of Revenues, Expenditures, and Changes in Fund Balances:

	Revenues	Transfers From Other Funds
<i>Mathers Educational Fund</i>		
Budgetary Comparison Schedule	\$ 19,877	\$ 83,879
Income from Mathers		
Educational Trust Fund	83,879	(83,879)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$103,756</u>	<u>\$ 0</u>

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NICHOLAS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2006

NICHOLAS COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	<u>Special Revenue Funds</u>					<u>Total Non-Major Governmental Funds</u>
	<u>Jail Fund</u>	<u>Local Government Economic Assistance Fund</u>	<u>Landfill Fund</u>	<u>Homeland Security Grant Fund</u>	<u>Debt Service Fund</u>	
ASSETS						
Cash and Cash Equivalents	\$ 3,518	\$ 772	\$ 5,664	\$	\$ 9,742	\$ 19,696
Total Assets	<u>\$ 3,518</u>	<u>\$ 772</u>	<u>\$ 5,664</u>	<u>\$ 0</u>	<u>\$ 9,742</u>	<u>\$ 19,696</u>
FUND BALANCES						
Reserved for:						
Encumbrances	\$ 2,230	\$	\$ 3,495	\$	\$	\$ 5,725
Unreserved for:						
Special Revenue Fund	1,288	772	2,169			4,229
Debt Service Fund					9,742	9,742
Total Fund Balances	<u>\$ 3,518</u>	<u>\$ 772</u>	<u>\$ 5,664</u>	<u>\$ 0</u>	<u>\$ 9,742</u>	<u>\$ 19,696</u>

The accompanying notes are an integral part of this financial statement.

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NICHOLAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

NICHOLAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Special Revenue Funds			
	Local			Homeland
	Government	Economic	Landfill	Security
	Jail	Assistance	Fund	Grant
	Fund	Fund	Fund	Fund
REVENUES				
Intergovernmental	\$ 51,136	\$ 18,964	\$	\$ 52,117
Charges for Services	15,704		40,384	
Miscellaneous			4,891	
Interest	658	401	403	
Total Revenues	67,498	19,365	45,678	52,117
EXPENDITURES				
Protection to Persons and Property	141,552			
General Health and Sanitation			59,388	
Roads		31,271		
Administration	8,243		6,301	52,117
Total Expenditures	149,795	31,271	65,689	52,117
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(82,297)	(11,906)	(20,011)	
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds				(1,483)
Transfers From Other Funds	83,000		21,000	
Total Other Financing Sources (Uses)	83,000		21,000	(1,483)
Net Changes in Fund Balances	703	(11,906)	989	(1,483)
Fund Balances - Beginning	2,815	12,678	4,675	1,483
Fund Balances - Ending	\$ 3,518	\$ 772	\$ 5,664	\$ 0

The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006
(Continued)

Debt Service Fund	Total Non-Major Governmental Funds
\$	\$ 122,217
	56,088
	4,891
	1,462
	<u>184,658</u>
	141,552
	59,388
	31,271
	<u>66,661</u>
	<u>298,872</u>
	(114,214)
	(1,483)
	<u>104,000</u>
	<u>102,517</u>
	(11,697)
<u>9,742</u>	<u>31,393</u>
<u>\$ 9,742</u>	<u>\$ 19,696</u>

The accompanying notes are an integral part of this financial statement.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



*Simon,
Underwood &
Associates* PSC

Certified Public Accountants and Consultants

Honorable Larry Tincher, Nicholas County Judge/Executive
Members of the Nicholas County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Nicholas County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 25, 2006. Nicholas County, Kentucky prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nicholas County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nicholas County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance or other matters that is required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of Nicholas County Fiscal Court and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
August 25, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BRECKINRIDGE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**


Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
NICHOLAS COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Nicholas County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Name
County Judge/Executive


Name
County Treasurer

